
Finance Committee

HB 2853

Brief Description: Providing a retail sales and use tax exemption for qualified donations to the Washington excellence fund.

Sponsors: Representative Morris.

Brief Summary of Bill

- Creates the Washington Excellence Fund to support the State Need Grant program.
- Authorizes a retail sales and use tax exemption in an amount equal to any monetary donation made to the Washington Excellence Fund.

Hearing Date: 1/30/18

Staff: Tracey O'Brien (786-7152).

Background:

Federal Income Tax.

Taxpayers who itemize deductions on their federal income tax are allowed to deduct certain taxes paid to state and local governments from their gross income for federal income tax purposes. In 2015, almost one in three taxpayers made use of the state and local tax (SALT) deduction. The U.S. Congress enacted the Tax Cuts and Jobs Act of 2017 (P.L. 115-97), which made changes to the federal income tax laws. As part of the legislation, a \$10,000 annual SALT deduction cap for those married filing jointly is imposed beginning tax year 2018.

In addition, taxpayers who itemize deductions on their federal income tax returns may be able to deduct qualified donations to charitable organizations. Government entities are qualified organizations for the purposes of claiming charitable deductions. The contribution must be solely for public purposes. The amount of the deduction depends on the amount of the charitable contribution, excluding any benefit received.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The State Need Grant.

The State Need Grant (SNG) is the state's largest financial aid program. To be eligible for the program, a student must:

- be a Washington state resident;
- have a household income of less than 70 percent of the state's median household income;
- attend an eligible institution of higher education and maintain satisfactory academic progress;
- enroll with a minimum of three credits as an undergraduate student;
- be pursuing a first bachelor's degree, a certificate, or a first associate degree in any field excluding theology; and
- not owe repayment to another student aid program.

The SNG award amount varies based on the institution of higher education the student attends and the student's family income. A student with a family income of 50 percent or less of the state's median family income (MFI) will receive the maximum award amount, while a student with a family income of 70 percent of MFI is eligible to receive 50 percent of the maximum award amount. In addition to income, the SNG award amount varies based on the type of institution a student chooses to attend. For example, for the 2017-18 academic year, a SNG student receiving a full award who attends the University of Washington receives \$9,553. A SNG student who receives the full award amount and attends a public community or technical college receives \$3,620. A SNG student may receive an award for up to five years or 125 percent of their program's length.

Tax Preferences.

In 2013, the Legislature enacted Engrossed Substitute Senate Bill (ESSB) 5882, which requires tax preference legislation enacted, expanded, or extended after August 1, 2013, to include a tax preference performance statement (TPPS). The TPPS must state the legislative purpose for the new tax preference. The TPPS must also specify clear, relevant, and ascertainable metric and data requirements that allow the Joint Legislative Audit and Review Committee and the Legislature to measure the effectiveness of the new tax preference. In addition, ESSB 5882 also established a default 10-year expiration date for all new tax preferences. The 10-year expiration does not apply to any existing tax preference that is amended to clarify an ambiguity or correct a technical inconsistency, if the legislation clearly indicates this intent. The Legislature can exempt a tax preference from the default expiration explicitly or by providing a specific expiration date.

Summary of Bill:

The Washington Excellence Fund is created and will fund the State Need Grant program. A person who makes a donation to the Washington Excellence Fund will receive a state retail sales or use tax exemption in an amount equal to the monetary donation amount. This state retail sales or use tax exemption may be used to reduce a person's state retail sales or use tax on purchases of taxable goods or services valued at over \$150,000. The Department of Revenue (DOR) will issue the person an exemption certificate to be presented at the time of purchase.

A tax preference performance statement is provided. The purpose of the tax preference is to reduce the federal tax burden on individuals and businesses as the result of the annual cap on the federal income tax deduction for state and local taxes enacted as part of the Tax Cuts and Jobs

Act of 2017. An additional purpose of the tax preference is to reduce the competitive advantage of states that do not have a retail sales and use tax. If the Joint Legislative Audit and Review Committee finds that at least \$500,000 in donations are made to the Washington Excellence Fund, the Legislature intends to extend this tax preference.

The tax preference expires July 1, 2028.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.